THE

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ENGLISH SYSTEM OF FINANCE.

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PHILADELPHIA,

PRINTED BY JOHN PAGE, N°. 67 MULBERRY STREET,
FOR BENJ. FRANKLIN BACHE, N°. 112 HIGH STREET.

1796.

"On the verge, nay even in the gulph of bankruptcy."

Debates in Parliament.

NOTHING, they ſay, is more certain than death, and nothing more uncertain than the time of dying: yet we can always fix a period beyond which man cannot live, and within ſome moment of which he will die. We are enabled to do this, not by any ſpirit of prophecy, or foreſight into the event, but by obſervation of what has happened in all caſes of human or animal exiſtence. If then any other ſubject, ſuch for inſtance as a ſyſtem of finance, exhibits in

its progreſs a ſeries of ſymptoms indicating decay, its final diſſolution is certain, and the period of it can be calculated from the ſymptoms it exhibits.

Thoſe who have hitherto written on the Engliſh ſyſtem of finance (the funding ſyſtem) have been uniformly impreſſed with the idea of its downfall happening *ſome time or other*. They took, however, no data for that opinion, but expreſſed it predictively, or merely as opinion, from a conviction that the perpetual duration of ſuch a ſyſtem was a natural impoſſibility. It is in this manner that Doctor Price has ſpoken of it; and Smith in his Wealth of Nations has ſpoken in the ſame manner; that is, merely as opinion without data. "The progreſs, ſays Smith, of the enormous debts, which at preſent oppreſs, and will in the long run *moſt probably ruin*, all the great nations of Europe, (he ſhould have ſaid *governments*) has been pretty uniform." But this general manner of ſpeaking, though it might make ſome impreſſion, carried with it no conviction.

It is not my intention to predict any thing; but I will ſhow from data already known, from ſymptoms and facts, which the Engliſh funding ſyſtem has already exhibited publicly, that it will not continue to the end of Mr. Pitt's life, ſuppoſing him to live the uſual age of a man. How much ſooner it may fall, I leave to others to predict.

Let financiers diverſify ſyſtems of credit as they will, it is nevertheleſs true, that every ſyſtem of credit is a ſyſtem of paper money. Two experiments have already been had upon paper money; the one in America the other in France. In both thoſe caſes the whole capital was emitted, and that whole capital, which in America was called continental money, and in France aſſignats, appeared in circulation; the conſequence of which was, that the quantity became ſo

enormous, and ſo diſproportioned to the quantity of population, and to the quantity of objects upon which it could be employed, that the market, if I may ſo expreſs it, was glutted with it, and the value of it fell. Between five and ſix years determined the fate of thoſe experiments. The ſame fate would have happened to gold and ſilver, could gold and ſilver have been iſſued in the ſame abundant manner as paper had been, and confined within the country as paper money always is, by having no circulation out of it; or, to ſpeak on a larger ſcale, the ſame thing would happen in the world, could the world be glutted with gold and ſilver, as America and France has been with paper.

The Engliſh ſyſtem differs from that of America and France in this one particular, that its capital is kept out of ſight; that is, it does not appear in circulation. Were the whole capital of the national debt, which at the time I write this is almoſt four hundred million pounds ſterling, to be emitted in aſſignats or bills, and that whole quantity put into circulation, as was done in America and in France, thoſe Engliſh aſſignats, or bills, would ſink in value as thoſe of America and France have done; and that in a greater degree, becauſe the quantity of them would be more diſproportioned to the quantity of population in England, than was the caſe in either of the other two countries. A nominal pound ſterling in ſuch bills would not be worth one penny.

But though the Engliſh ſyſtem, by thus keeping the capital out of ſight, is preſerved from haſty deſtruction, as in the caſe of America and France, it nevertheleſs approaches the ſame fate, and will arrive at it with the ſame certainty, though by a ſlower progreſs. The difference is altogether in the degree of ſpeed by which the two ſyſtems approach their

fate, which, to ſpeak in round numbers, is as twenty is to one; that is, the Engliſh ſyſtem, that of funding the capital inſtead of iſſuing it, contained within itſelf a capacity of enduring twenty times longer than the ſyſtems adopted by America and France; and at the end of that time it would arrive at the ſame common grave, the Potter's field, of paper money.

The datum I take for this proportion of twenty to one, is the difference between a capital and the intereſt at five per cent. Twenty times the intereſt is equal to the capital. The accumulation of paper money in England is in proportion to the accumulation of the intereſt upon every new loan; and therefore the progreſs to diſſolution is twenty times ſlower than if the capital were to be emitted and put into circulation immediately. Every twenty years in the Engliſh ſyſtem is equal to one year in the French and American ſyſtems.

Having thus ſtated the duration of the two ſyſtems, that of funding upon intereſt, and that of emitting the whole capital without funding, to be as twenty to one, I come to examine the ſymptoms of decay approaching to diſſolution, that the Engliſh ſyſtem has already exhibited, and to compare them with ſimilar ſymptoms in the French and American ſyſtems.

The Engliſh funding ſyſtem began one hundred years ago; in which time there has been ſix wars including the war that ended in 1697.

1. The war that ended, as I have juſt ſaid, in 1697.
2. The war that began in 1702.
3. The war that began in 1739.
4. The war that began in 1756.
5. The American war that began in 1775.
6. The preſent war that began in 1793.

The national debt, at the concluſion of the war, which ended in 1697, was twenty one millions and an half. (See Smith's Wealth of Nations, chapter on Public Debts.) We now ſee it approaching faſt to four hundred millions. If between thoſe two extremes of twenty one millions and four hundred millions, embracing the ſeveral expences of all the including wars, there exiſts ſome common ratio that will aſcertain arithmetically the amount of the debt at the end of each war, as certainly as the fact is now known to be, that ratio will in like manner determine what the amount of the debt will be in all future wars, and will aſcertain the period within which the funding ſyſtem will expire in a bankruptcy of the government; for the ratio I allude to is the ratio which the nature of the thing has eſtabliſhed for itſelf.

Hitherto no idea has been entertained that any ſuch ratio exiſted, or could exiſt, that could determine a problem of this kind, that is, that could aſcertain, without having any knowledge of the fact, what the expence of any former war had been, or what the expence of any future war would be; but it is neverthelefs true that ſuch a ratio does exiſt, as I ſhall ſhew, and alſo the mode of applying it.

The ratio I allude to is not in arithmetical progreſſion, like the numbers

2, 3, 4, 5, 6, 7, 8, 9,

nor yet in geometrical progreſſion, like the numbers

2, 4, 8, 16, 32, 64, 128, 256;

but is in the ſeries of one half upon each preceding number; like the numbers

8, 12, 18, 27, 40, 60, 90, 135.

Any perſon can perceive that the ſecond number

12, is produced by the preceding number 8, and half 8: and that the third number 18 is in like manner produced by the preceding number 12 and half 12, and ſo on for the reſt. They can alſo ſee how rapidly the ſums increaſe as the ratio proceeds. The difference betwen the two firſt numbers is but 4, but the difference between the two laſt is 45; and from thence they may ſee with what immenſe rapidity the national debt has encreaſed, and will continue to encreaſe, till it exceeds the ordinary powers of calculation, and loſes itſelf in cyphers.

I come now to apply the ratio as a rule to determine all the caſes.

I begin with the war that ended in 1697, which was the war in which the funding ſyſtem began. The expence of that war was twenty-one millions and an half. In order to aſcertain the expence of the next war, I add to twenty-one millions and an half, the half thereof (ten millions and three quarters) which makes thirty one millions and three quarters for the expence of that war. This thirty-one millions and three quarters, added to the former debt of twenty-one millions and an half, carries the national debt to 52 millions and three quarters. Smith, in his chapter on Public Debts, ſays, the national debt was at this time 53 millions.

I proceed to aſcertain the expence of the next war, that of 1739, by adding, as in the former caſe, one half to the expence of the preceding war. The expence of the preceding war was thirty-one millions and three quarters; for the ſake of even numbers, ſay 32 millions, the half of which (16) makes forty eight millions for the expence of that war.

I proceed to aſcertain the expence of the war of 1756, by adding, according to the ratio, one half to

the expence of the preceding war. The expence of the preceding war was taken at 48 millions, the half of which (24) makes 72 millions for the expence of that war. Smith (chapter on Public Debts) ſays, the expence of the war of 1756 was 72 millions and a quarter.

I proceed to aſcertain the expence of the American war of 1775, by adding, as in the former caſes, one half to the expence of the preceding war. The expence of the preceding war was 72 millions, the half of which (36) makes 108 millions for the expence of that war. In the laſt edition of Smith, (chapter on Public Debts) he ſays, the expence of the American war was *more than an hundred millions.*

I come now to aſcertain the expence of the preſent war, ſuppoſing it to continue as long as former wars have done, and the funding ſyſtem not to break up before that period. The expence of the preceding war was 108 millions, the half of which (54) makes one hundred and ſixty-two millions for the expence of the preſent war. It gives ſymptoms of going beyond this ſum, ſuppoſing the funding ſyſtem not to break up; for the loans of the laſt year and of the preſent year, are twenty-two millions each; which exceeds the ratio compared with the loans of the preceding war. It will not be from the inability of procuring loans that the ſyſtem will break up. On the contrary, it is the facility with which loans can be procured, that haſtens that event. The loans are altogether paper tranſactions, and it is the exceſs of them that brings on, with accelerating ſpeed, that progreſſive depreciation of funded paper money that will diſſolve the funding ſyſtem.

I proceed to aſcertain the expence of future wars, and I do this merely to ſhew the impoſſibility

of the continuance of the funding ſyſtem, and the certainty of its diſſolution.

The expence of the next war, after the preſent war, according to the ratio that has aſcertained the preceding caſes, will be - - 243 millions

Expence of the ſecond war	- -	364 millions
of the third war	- -	546 millions
of the fourth war	- -	819 millions
of the fifth war	- -	1228 millions
		3200 millions;

which, at only 4 per cent, will require taxes to the nominal amount of one hundred twenty-eight millions to pay the annual intereſt, beſides the intereſt of the preſent debt, and the expence of government, which are not included in this account. Is there a man ſo mad, ſo ſtupid, as to ſuppoſe this ſyſtem can continue?

When I firſt conceived the idea of ſeeking for ſome common ratio that ſhould apply as a rule of meaſurement to all the caſes of the funding ſyſtem, ſo far as to aſcertain the ſeveral ſtages of its approach to diſſolution, I had no expectation that any ratio could be found that would apply with ſo much exactneſs as this does. I was led to the idea merely by obſerving that the funding ſyſtem was a thing in continual progreſſion, and that whatever was in a ſtate of progreſſion, might be ſuppoſed to admit of, at leaſt, ſome general ratio of meaſurement that would apply without any very great variation. But who could have ſuppoſed that falling ſyſtems, or falling opinions, admitted of a ratio, apparently as true as the deſcent of falling bodies? I have not *made* the ratio, any more than Newton made the ratio of gravitation. I have only diſcovered it, and explained the mode of applying it.

To ſhew at one view the rapid progreſſion of the funding ſyſtem to deſtruction, and to expoſe the folly of thoſe who blindly believe in its continuance, or who artfully endeavour to impoſe that belief upon others, I exhibit in the annexed table, the expence of each of the ſix wars ſince the funding ſyſtem began, as aſcertained by the ratio, and the expence of ſix wars yet to come, aſcertained by the ſame ratio.

First ſix wars.		Second ſix wars.	
1	21 millions	1	243 millions
2	33 millions	2	364 millions
3	48 millions	3	546 millions
4	72 millions *	4	819 millions
5	108 millions	5	1228 millions
6	162 millions	6	1842 millions
Total	444 millions	Total	5042 millions

* The actual expence of the war of 1739, did not come up to the ſum aſcertained by the ratio. But as that which is the natural diſpoſition of a thing, as it is the natural diſpoſition of a ſtream of water to deſcend, will, if impeded in its courſe, overcome by a new effort what it had loſt by that impediment, ſo it was with reſpect to this war and the next (1756) taken collectively; for the expence of the war 1756, reſtored the equilibrium of the ratio, as fully as if it had not been impeded. A circumſtance that ſerves to prove the truth of the ratio more fully than if the interruption had not taken place. The war of 1739, was languid; the efforts were below the value of money at that time; for the ratio is the meaſure of the depreciation of money in conſequence of the funding ſyſtem; or what comes to the ſame end, it is the meaſure of the encreaſe of paper Every additional quantity of it, whether in bank notes or otherwiſe, diminiſhes the *real*, though not the *nominal* value of the former quantity.

Thoſe who are acquainted with the power with which even a ſmall ratio, acting in progreſſion, multiplies in a long ſeries, will ſee nothing to wonder at in this table. Thoſe who are not acquainted with that ſubject, and not knowing what elſe to ſay, may be inclined to deny it. But it is not their opinion one way, nor mine the other, that can influence the event. The table exhibits the natural march of the funding ſyſtem to its irredeemable diſſolution.—Suppoſing the preſent government of England to continue and to go on, as it has gone on ſince the funding ſyſtem began, I would not give twenty ſhillings for one hundred pounds in the funds to be paid twenty years hence. I do not ſpeak this predictively; I produce the data upon upon which that belief is founded; and which data it is every body's intereſt to know, who have any thing to do with the funds, or who are going to bequeath property to their deſcendants to be paid at a future day.

Perhaps it may be aſked, that as governments or miniſters proceeded by no ratio in making loans or incurring debts, and as nobody intended any ratio, or thought of any, how does it happen that there is one? I anſwer that the ratio is founded in neceſſity; and I now go to explain what that neceſſity is.

It will always happen that the price of labour or of the produce of labour, be that produce what it may, will be in proportion to the quantity of money in a country, admitting things to take their natural courſe. Before the invention of the funding ſyſtem, there was no other money than gold and ſilver; and as nature gives out thoſe metals with a ſparing hand and in regular annual quantities from the mines, the ſeveral prices of things were proportioned to the quantity of money at that time, and

ſo nearly ſtationary as to vary but little in any fifty or ſixty years of that period.

When the funding ſyſtem began, a ſubſtitute for gold and ſilver began alſo. That ſubſtitute was paper; and the quantity of it encreaſed as the quantity of intereſt encreaſed upon accumulated loans. This appearance of a new and additional ſpecies of money in the nation ſoon began to break the relative value, which money and the things it will purchaſe, bore to each other before. Every thing roſe in price, but the riſe at firſt was little and ſlow, like the difference in units between the two firſt numbers 8 and 12, compared with the two laſt numbers 90 and 135 in the table. It was however ſufficient to make itſelf conſiderably felt in a large tranſaction. When therefore government, by engaging in a new war, required a new loan, it was obliged to make a higher loan than the former loan to balance the encreaſed price to which things had riſen; and as that new loan encreaſed the quantity of paper in proportion to the new quantity of intereſt, it carried the price of things ſtill higher than before. The next loan was again higher to ballance that further encreaſed price; and all this in the ſame manner, though not in the ſame degree, that every new emiſſion of continental money in America, or of aſſignats in France, were greater than the preceding emiſſion to make head againſt the advance of prices, till the combat could be maintained no longer. Herein is founded the neceſſity, of which I have juſt ſpoken. That neceſſity proceeds with accelerating velocity, and the ratio I have laid down is the meaſure of that acceleration; or, to ſpeak the technical language of the ſubject, it is the meaſure of the encreaſing depreciation of funded paper money, which it is impoſſible to prevent, while the quantity of that money and of bank

notes continues to multiply. What elſe but this can account for the difference between one war coſting 21 millions and another war coſting 160 millions?

The difference cannot be accounted for on the ſcore of extraordinary efforts or extraordinary atchievements. The war that coſt 21 millions was the war of the confederates, hiſtorically called the grand alliance, conſiſting of England, Auſtria and Holland, in the time of William the third, againſt Louis the fourteenth, and in which the confederates were victorious. The preſent is a war of a much greater confederacy; a confederacy of England, Auſtria, Pruſſia, the German Empire, Spain, Holland, Naples and Sardinia, eight powers againſt the French Republic ſingly, and the Republic has beaten the whole confederacy.—But to return to my ſubject.

It is ſaid in England that the value of paper keeps equal with the value of gold and ſilver. But the caſe is not rightly ſtated; for the fact is, that the paper has *pulled down* the value of gold and ſilver to a level with itſelf. Gold and ſilver will not purchaſe ſo much of any purchaſeable article at this day as if no paper had appeared, nor ſo much as it will in any country in Europe where there is no paper. How long this hanging together of money and paper will continue, makes a new caſe; becauſe it daily expoſes the ſyſtem to ſudden death, independant of the natural death it would otherwiſe ſuffer.

I conſider the funding ſyſtem as being now advanced into the laſt twenty years of its exiſtence. The ſingle circumſtance, were there no other, that a war ſhould now coſt *nominally* one hundred and ſixty millions, which when the ſyſtem began coſt but twenty-one millions, or that the loan for one year only (including the loan to the Emperor)

ſhould now be *nominally* greater than the whole expence of that war, ſhews the ſtate of depreciation to which the funding ſyſtem has arrived. Its depreciation is in the proportion of eight for one, compared with the value of its money when the ſyſtem began; which is the ſtate the French aſſignats ſtood in a year ago (March 1795) compared with gold and ſilver. It is therefore that I ſay, that the Engliſh funding ſyſtem has entered into the laſt twenty years of its exiſtence, comparing each twenty years of the Engliſh ſyſtem, with every ſingle year of the American and French ſyſtems, as before ſtated.

Again, ſuppoſing the preſent war to cloſe as former wars have done, and without producing either revolution or reform in England, another war, at leaſt, muſt be looked for in the ſpace of the twenty years I allude to; for it has never yet happened that twenty years have paſſed off without a war, and that more eſpecially ſince the Engliſh government has dabbled in German politics, and ſhewn a diſpoſition to inſult the world, and the world of commerce, with her navy. That next war will carry the national debt to very nearly ſeven hundred millions, the intereſt of which at four *per* cent. will be twenty-eight millions, beſides the taxes for the (then) expences of government, which will encreaſe in the ſame proportion, and which will carry the taxes to at leaſt forty millions; and if another war only begin, it will quickly carry them to above fifty; for it is in the laſt twenty years of the funding ſyſtem, as in the laſt year of the American and French ſyſtems without funding, that all the great ſhocks begin to operate.

I have juſt mentioned that paper, in England, has *pulled down* the value of gold and ſilver to a level with itſelf; and that this *pulling down* of gold

and ſilver money has created the appearance of paper money keeping up. The ſame thing and the ſame miſtake took place in America and in France, and continued for a conſiderable time after the commencement of their ſyſtem of paper; and the actual depreciation of money was hidden under that miſtake.

It was ſaid in America, at that time, that every thing was becoming *dear*; but gold and ſilver could then buy thoſe dear articles no cheaper than paper could; and therefore it was not called depreciation. The idea of *dearneſs* eſtabliſhed itſelf for the idea of depreciation. The ſame was the caſe in France. Though every thing roſe in price ſoon after aſſignats appeared, yet thoſe dear articles could be purchaſed no cheaper with gold and ſilver than with paper, and it was only ſaid that things were *dear*. The ſame is ſtill the language in England. They call it *dearneſs*. But they will ſoon find that it is an actual depreciation, and that this depreciation is the effect of the funding ſyſtem; which by crowding ſuch a continually encreaſing maſs of paper into circulation, carries down the value of gold and ſilver with it. But gold and ſilver will, in the long run, revolt againſt depreciation, and ſeparate from the value of paper; for the progreſs of all ſuch ſyſtems appears to be, that the paper will take the command in the beginning, and gold and ſilver in the end.

But this ſucceſſion in the command of gold and ſilver over paper, makes a criſis far more eventful to the funding ſyſtem than to any other ſyſtem upon which paper can be iſſued; for, ſtrictly ſpeaking, it is not a criſis of danger, but a ſymptom of death. It is a death ſtroke to the funding ſyſtem. It is a revolution in the whole of its affairs.

If paper be iſſued without being funded upon intereſt, emiſſions of it can be continued after the value of it ſeparates from gold and ſilver, as we have ſeen in the two caſes of America and France. But the funding ſyſtem reſts altogether upon the value of paper being equal to gold and ſilver; which will be as long as the paper can continue carrying down the value of gold and ſilver to the ſame level to which itſelf deſcends, and no longer. But even in this ſtate, that of deſcending equally together, the miniſter, whoever he may be, will find himſelf beſet with accumulating difficulties; becauſe the loans and taxes voted for the ſervice of each enſuing year will wither in his hands before the year expires, or before they can be applied. This will force him to have recourſe to emiſſions of what is called exchequer and navy bills, which by ſtill encreaſing the maſs of paper in circulation, will drive on the depreciation ſtill more rapidly.

It ought to be known that taxes in England are not paid in gold and ſilver, but in paper (bank notes). Every perſon who pays any conſiderable quantity of taxes, ſuch as malſters, brewers, diſtillers (I appeal for the truth of it to any of the collectors of exciſe in England, or to Mr. Whitbread) knows this to be the caſe. There is not gold and ſilver enough in the nation to pay the taxes in coin, as I ſhall ſhew; and conſequently there is not money enough in the bank to pay the notes. The intereſt of the national funded debt is paid at the bank in the ſame kind of paper in which the taxes are collected. When people find, as they will find, a reſervedneſs among each other in giving gold and ſilver for bank notes or the leaſt perference for the former over the latter, they will go for payment to the bank where they have a right to go. They will do this as a mea-

ſure of prudence, each one for himſelf, and the truth or deluſion of the funding ſyſtem will then be proved.

I have ſaid in the foregoing paragraph, that there is not gold and ſilver enough in the nation to pay the taxes in coin, and conſequently that there cannot be enough in the bank to pay the notes. As I do not chuſe to reſt any thing upon aſſertion, I appeal for the truth of this to the publications of Mr. Eden (now called Lord Auckland), and George Chalmers, ſecretary to the board of trade and plantation, of which Jenkinſon (now called Lord Hawkſbury) is preſident. (Theſe ſort of folks change their names ſo often, that it is as difficult to know them as it is to know a thief.) Chalmers gives the quantity of gold and ſilver coin from the returns of coinage at the mint; and after deducting for the light gold recoined, ſays, that the amount of gold and ſilver coin is *about twenty millions*. He had better not have proved this, eſpecially if he had reflected that *public credit is ſuſpicion aſleep*. The quantity is much too little.

Of this twenty millions (which is not a fourth part of the quantity of gold and ſilver there is in France, as is ſhewn in Mr. Necker's treatiſe on the adminiſtration of the finances) three millions at leaſt muſt be ſuppoſed to be in Ireland, ſome in Scotland, and in the Weſt-Indies, Newfoundland, &c. The quantity therefore in England cannot be more than ſixteen millions, which is four millions leſs than the amount of the taxes. But admitting there to be ſixteen millions, not more than a fourth part thereof (four millions) can be in London, when it is conſidered that every city, town, village, and farm-houſe in the nation muſt have a part of it, and that all the great manufactories, which moſt require caſh, are out of London. Of this four millions in London,

every banker, merchant, tradeſman, in ſhort every individual muſt have ſome. He muſt be a poor ſhop-keeper indeed, who has not a few guineas in his till. The quantity of caſh therefore in the bank can never, on the evidence of circumſtances, be ſo much as two millions; moſt probably not more than one million; and on this ſlender twig, always liable to be broken, hangs the whole funding ſyſtem of four hundred millions, beſides many millions in bank notes. The ſum in the bank is not ſufficient to pay one fourth of only one year's intereſt of the national debt, were the creditors to demand payment in caſh, or to demand caſh for the bank notes in which the intereſt is paid. A circumſtance always liable to happen.

One of the amuſements that has kept up the farce of the funding ſyſtem is, that the intereſt is regularly paid. But as the intereſt is always paid in bank notes, and as bank notes can always be coined for the purpoſe, this mode of payment proves nothing. The point of proof is, can the bank give caſh for the bank notes in which the intereſt is paid? If it cannot, and it is evident it cannot, ſome millions of bank notes muſt go without payment, and thoſe holders of bank notes who apply laſt will be worſt off. When the preſent quantity of caſh in the bank be paid away, it is next to impoſſible to ſee how any new quantity is to arrive. None will arrive from taxes, for the taxes will all be paid in bank notes; and ſhould the government refuſe bank notes in payment of taxes, the credit of bank notes will be gone at once. No caſh will arrive from the buſineſs of diſcounting merchants' bills, for every merchant will pay off thoſe bills in bank notes and not in caſh. There is therefore no means left for the bank to obtain a new ſupply of caſh after the

preſent quantity be paid away. But, beſides the impoſſibility of paying the intereſt of the funded debt in caſh, there are many thouſand perſons in London and in the country, who are holders of bank notes that came into their hands in the fair way of trade, and who are not ſtockholders in the funds; and as ſuch perſons have had no hand in encreaſing the demand upon the bank, as thoſe have had, who for their own private intereſt, like Boyd and others, are contracting, or pretending to contract, for new loans, they will conceive they have a juſt right their bank notes ſhould be paid firſt. Boyd has been very ſly in France, in changing his paper into caſh. He will be juſt as ſly in doing the ſame thing in London, for he has learned to calculate; and then it is probable he will ſet off for America.

A ſtoppage of payment at the bank is not a new thing. Smith, in his Wealth of Nations, book 2, chap. 2, ſays, That in the year 1696, exchequer bills fell forty, fifty and ſixty *per* cent. bank notes twenty *per* cent. and the bank ſtopt payment. That which happened in 1696 may happen again in 1796. The period in which it happened was the laſt year of the war of king William. It neceſſarily put a ſtop to the further emiſſion of exchequer and navy bills, and to the raiſing of new loans; and the peace which took place the next year was probably hurried on by this circumſtance, and ſaved the bank from bankruptcy. Smith, in ſpeaking of the circumſtances of the bank, upon another occaſion, ſays (book 2, chap. 2.) "This great company has been reduced "to the neceſſity of paying in ſix-pences." When a bank adopts the expedient of paying in ſix-pences it is a confeſſion of inſolvency.

It is worthy of obſervation, that every caſe of a failure in finances, ſince the ſyſtem of paper began,

has produced a revolution in governments, either total or partial. A failure in the finances of France produced the French revolution. A failure in the finance of the aſſignats broke up the revolutionary government, and produced the preſent French Conſtitution. A failure in the finances of the old Congreſs of America, and the embarraſſments it brought upon commerce, broke up the ſyſtem of the old confederation, and produced the preſent Federal Conſtitution. If then we admit of reaſoning by compariſon of cauſes and events, a failure in the Engliſh finances will produce ſome change in the government of that country.

As to Mr. Pitt's project of paying off the national debt by applying a million a year for that purpoſe, while he continues adding more than twenty millions a year to it, it is like ſetting a man with a wooden leg to run after a hare. The longer he runs the farther he is off.

When I ſaid that the funding ſyſtem had entered the laſt twenty years of its exiſtence, I certainly did not mean that it would continue twenty years, and then expire as a leaſe would do. I meant to deſcribe that age of decrepitude in which death is every day to be expected, and life cannot continue long. But the death of credit, or that ſtate that is called bankruptcy, is not always marked by thoſe progreſſive ſtages of viſible decline, that mark the decline of natural life. In the progreſſion of natural life, age cannot counterfeit youth, nor conceal the departure of juvenile abilities. But it is otherwiſe with reſpect to the death of credit; for though all the approaches to bankruptcy may actually exiſt in circumſtances, they admit of being concealed by appearances. Nothing is more common than to ſee the bankrupt of to-day a man in credit but the day

before; yet no ſooner is the real ſtate of his affairs known, than every body can ſee he had been inſolvent long before. In London, the greateſt theatre of bankruptcy in Europe, this part of the ſubject will be well and feelingly underſtood.

Mr. Pitt continually talks of credit and of the national reſources. Theſe are two of the feigned appearances by which the approaches to bankruptcy are concealed. That which he calls credit may exiſt, as I have juſt ſhewn, in a ſtate of inſolvency, and is always, what I have before deſcribed it to be, *ſuſpicion aſleep*.

As to national reſources, Mr. Pitt, like all the Engliſh financiers that preceded him ſince the funding ſyſtem began, has uniformly miſtaken the nature of a reſource; that is, they have miſtaken it conſiſtently with the deluſion of the funding ſyſtem; but time is explaining the deluſion. That which he calls, and which they called, a reſource, is not a reſource, but is the *anticipation* of a reſource. They have anticipated *what would have been* a reſource in another generation, had not the uſe of it been ſo anticipated. The funding ſyſtem is a ſyſtem of anticipations. Thoſe who eſtabliſhed it an hundred years ago, anticipated the reſources of thoſe who were to live an hundred years after; for the people of the preſent day have to pay the intereſt of the debts contracted at that time, and of all debts contracted ſince. But it is the laſt feather that breaks the horſe's back. Had the ſyſtem began an hundred years before, the amount of taxes at this time, to pay the annual intereſt at four *per* cent. (could we ſuppoſe ſuch a ſyſtem of inſanity could have continued) would be two hundred and twenty millions annually; for the capital of the debt would be 5486 millions, according to the ratio that aſcertains the ex-

pence of the wars for the hundred years that are paſt. But long before it could have reached this period, the value of bank notes, from the immenſe quantity of them (for it is in paper only that ſuch a nominal revenue could be collected) would have been as low or lower than continental paper-money has been in America, or aſſignats in France; and as to the idea of exchanging them for gold and ſilver, it is too abſurd to be contradicted.

Do we not ſee that nature, in all her operations, diſowns the viſionary baſis upon which the funding ſyſtem is built. She acts always by renewed ſucceſſions, and never by accumulating additions perpetually progreſſing. Animals and vegetables, men and trees, have exiſted ever ſince the world began; but that exiſtence has been carried on by ſucceſſions of generations, and not by continuing the ſame men and the ſame trees in exiſtence that exiſted firſt; and to make room for the new, ſhe removes the old. Every natural ideot can ſee this. It is the ſtock-jobbing ideot only that miſtakes. He has conceived that art can do what nature cannot. He is teaching her a new ſyſtem—That there is no occaſion for man to die.—That the ſcheme of creation can be carried on upon the plan of the funding ſyſtem.—That it can proceed by continual additions of new beings, like new loans, and all live together in eternal youth. Go, count the graves, thou ideot, and learn the folly of thy arithmetic.

But beſides theſe things, there is ſomething viſibly farcical in the whole operation of loaning. It is ſcarcely more than four years ago that ſuch a rot of bankruptcy ſpread itſelf over London, that the whole commercial fabric tottered; trade and credit were at a ſtand; and ſuch was the ſtate of things, that to prevent, or ſuſpend, a general bankruptcy,

the government lent the merchants ſix millions in *government* paper, and now the merchants lend the government twenty-two millions in *their* paper; and two parties, Boyd and Morgan, men but little known, contend who ſhall be the lenders. What a farce is this! It reduces the operation of loaning to accomdation paper, in which the competitors contend, not who ſhall lend, but who ſhall ſign, becauſe there is ſomething to be got for ſigning.

Every Engliſh ſtock-jobber and miniſter boaſts of the credit of England. Its credit, ſay they, is greater than that of any country in Europe. There is a good reaſon for this; for there is not another country in Europe that could be made the dupe of ſuch a deluſion. The Engliſh funding ſyſtem will remain a monument of wonder, not ſo much on account of the extent to which it has been carried, as of the folly of believing in it.

Thoſe who had formerly predicted that the funding ſyſtem would break up when the debt ſhould amount to one hundred or one hundred and fifty millions, erred only, in not diſtinguiſhing between inſolvency and actual bankruptcy; for the inſolvency commenced as ſoon as the government became unable to pay the intereſt in caſh, or to give caſh for the bank notes in which the intereſt was paid, whether that inability was known or not, or whether it was ſuſpected or not. Inſolvency always takes place before bankruptcy, for bankruptcy is nothing more than the publication of that inſolvency. In the affairs of an individual, it often happens that inſolvency exiſts ſeveral years before bankruptcy, and that the inſolvency is concealed and carried on till the individual is not able to pay one ſhilling in the pound. A government can ward off bankruptcy longer than an individual; but inſolvency will in-

evitably produce bankruptcy, whether in an individual or in a government. If then the quantity of bank notes payable on demand, which the bank has iſſued, are greater than the bank can pay off, the bank is inſolvent; and when that inſolvency be declared, it is bankruptcy. *

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* Among the deluſions that have been impoſed upon the nation by miniſters, to give a falſe colouring to its affairs, and by none more than by Mr. Pitt, is a motley, amphibious caractered thing called the *balance of trade*. This balance of trade, as it is called, is taken from the cuſtom-houſe books, in which entries are made of all cargoes exported, and alſo of all cargoes imported in each year; and when the value of the exports, according to the price ſet upon them by the exporter or by the cuſtom-houſe, is greater than the value of the imports eſtimated in the ſame manner, they ſay, the balance of trade is ſo much in their favour.

The cuſtom-houſe books prove regularly enough that ſo many cargoes have been exported, and ſo many imported; but this is all that they prove or were intended to prove. They have nothing to do with the balance of profit or loſs; and it is ignorance to appeal to them upon that account; for the caſe is, that the greater the loſs is in any one year, the higher will this thing called the balance of trade appear to be according to the cuſtom-houſe books. For example, nearly the whole of the Mediterranean convoy has been taken by the French this year: conſequently thoſe cargoes will not appear as imports on the cuſtom-houſe books, and therefore the balance of trade, by which they mean the profits of it will appear to be ſo much the greater as this loſs amounts to; and on the other hand, had the loſs not happened, the profits would have appeared to have been ſo much the leſs. All the loſſes happening at ſea to returning cargoes, by accidents, by the elements, or by capture, make the balance appear the higher on the ſide of the exports; and were they all loſt at ſea, it would appear to be all profit on the cuſtom-houſe books. Alſo every cargo of exports that is loſt, that occaſions another to be ſent, adds in like manner to the ſide of the exports, and appears as profit. This year the balance of trade will appear high, becauſe the loſſes have been great by capture and by ſtorms. The ignorance of the Britiſh parliament, in liſtening to this hackneyed impoſition of miniſters about the balance of trade, is aſtoniſhing. It ſhews how little they know of national affairs, and Mr. Grey may as well talk Greek to them, as make motions about the ſtate of the nation. They underſtand fox-hunting and the game-laws.

I come now to ſhew the ſeveral ways by which bank notes get into circulation. I ſhall afterwards offer an eſtimate on the total quantity or amount of bank notes exiſting at this moment.

The bank acts in three capacities. As a bank of diſcount; as a bank of depoſit; and as banker for the government.

Firſt, as a bank of diſcount. The bank diſcounts merchants' bills of exchange for two months. When a merchant has a bill that will become due at the end of two months, and wants payment before that time, the bank advances that payment to him, deducting therefrom at the rate of five per cent. per ann. The bill of exchange remains at the bank as a pledge or pawn, and at the end of two months it muſt be redeemed. This tranſaction is done altogether in paper; for the profits of the bank, as a bank of diſcount, ariſe entirely from its making uſe of paper as money. The bank gives bank notes to the merchant, in diſcounting the bill of exchange, and the redeemer of the bill pays bank notes to the bank in redeeming it. It very ſeldom happens that any real money paſſes between them.

If the profits of a bank be, for example, two hundred thouſand pounds a year (a great ſum to be made merely by exchanging one ſort of paper for another, and which ſhews alſo that the merchants of that place are preſſed for money for payments, inſtead of having money to ſpare to lend to government) it proves that the bank diſcounts to the amount of four millions annually, or £666,666 every two months, and as there never remain in the bank more than two months, pledges, of the value of £666,666 at any one time, the amount of bank notes in circulation at any one time ſhould not be more than to that amount. This is ſufficient

to ſhew that the preſent immenſe quantity of bank notes, which are diſtributed through every city, town, village, and farm-houſe in England, cannot be accounted for on the ſcore of diſcounting.

Secondly, as a bank of depoſit. To depoſit money at the bank means to lodge it there for the ſake of convenience, and to be drawn out at any moment the depoſiter pleaſes, or to be paid away to his order. When the buſineſs of diſcounting is great, that of depoſiting is neceſſarily ſmall. No man depoſits and applies for diſcounts at the ſame time; for it would be like paying intereſt for lending money inſtead of for borrowing it. The depoſits that are now made at the bank are almoſt entirely in bank notes, and conſequently they add nothing to the ability of the bank to pay off the bank notes that may be preſented for payment; and beſides this, the depoſits are no more the property of the bank, than the caſh or bank notes in a merchant's counting houſe are the property of his book-keeper. No great increaſe therefore of bank notes, beyond what the diſcounting buſineſs admits, can be accounted for on the ſcore of depoſits.

Thirdly. The bank acts as banker for the government. This is the connection that threatens ruin to every public bank. It is through this connection that the credit of a bank is forced far beyond what it ought to be, and ſtill further beyond its ability to pay. It is through this connection that ſuch an immenſe redundant quantity of bank notes have gotten into circulation; and which, inſtead of being iſſued becauſe there was property in the bank, have been iſſued becauſe there was none.

When the treaſury is empty, which happens in almoſt every year of every war, its coffers at the bank are empty alſo. It is in this condition of empty-

neſs that the miniſter has recourſe to emiſſions of what are called exchequer and navy bills, which continually generates a new increaſe of bank notes, and which are ſported upon the public, without there being property in the bank to pay them. Theſe exchequer and navy bills (being as I have ſaid emitted becauſe the treaſury and its coffers at the bank are empty and cannot pay the demands that come in) are no other than an acknowledgment that the bearer is entitled to receive ſo much money. They may be compared to the ſettlement of an account, in which the debtor acknowledges the balance he owes, and for which he gives a note of hand; or to a note of hand given to raiſe money upon it.

Sometimes the bank diſcounts thoſe bills as it would diſcount merchants' bills of Exchange; ſometimes it purchaſes them of the holders at the current price; and ſometimes it agrees with the miniſter to pay an intereſt upon them to the holders and keep them in circulation. In every one of thoſe caſes an additional quantity of bank notes get into circulation, and are ſported, as I have ſaid, upon the public, without there being property in the bank, as banker for the government, to pay them: and beſides this the bank has now no money of its own; for the money that was originally ſubſcribed to begin the credit of the bank with, at its firſt eſtabliſhment, has been lent to government and waſted long ago.

"The bank (ſays Smith, book 2, chap. 2) acts not "only as an ordinary bank, but as a great engine of "ſtate: it receives and pays the greater part of the "annuities which are due to the creditors of the "*public*." (It is worth obſerving that the *public*, or the *nation*, is always put for the government in ſpeaking of debts.) "It circulates, ſays Smith, ex-"chequer bills, and it advances to government the

" annual amount of the land and malt taxes, which " are frequently not paid till ſeveral years after- " wards." (This advancement is alſo done in bank notes for which there is not property in the bank.) " In thoſe different operations (ſays Smith) *its duty* " *to the public* may ſometimes have obliged it, without " any fault of its directors, *to overſtock the circulation* " *with paper-money*," bank notes. How its *duty to the public* can induce it *to overſtock that public* with promiſſory bank notes which it *cannot pay*, and thereby expoſe the individuals of that public to ruin, is too paradoxical to be explained; for it is on the credit which individuals *give to the bank* by receiving and circulating its notes, and not upon its *own* credit or its *own* property, for it has none, that the bank ſports. If however it be the duty of the bank to expoſe the public to this hazard, it is at leaſt equally the duty of the individuals of that public to get their money and take care of themſelves; and leave it to placemen, penſioners, government contractors, Reeve's aſſociation, and to the members of both houſes of parliament, who have voted away the money of the public at the nod of the miniſter, to ſupport the credit of the bank, and of the unpaid bank notes, if they can, and for which their eſtates ought to anſwer as far as they will go.

There has always exiſted, and ſtill exiſts, a myſterious ſuſpicious connection between the miniſter and the directors of the bank, and which explains itſelf no otherways than by a continual encreaſe of bank notes. Without, therefore, entering into any further details of the various contrivances by which bank notes are iſſued and thrown upon the public; I proceed, as I before mentioned, to offer an eſtimate on the total quantity of bank notes in circulation.

However diſpoſed governments may be to wring money by taxes from the people, there is a limit to the practice eſtabliſhed in the nature of things. That limit is the proportion between the quantity of money in a nation, be that quantity what it may, and the greateſt quantity of taxes that can be raiſed upon it. People have other uſes for money beſides paying taxes; and it is only a proportional part of that money they can ſpare for taxes, as it is only a proportional part they can ſpare for houſe-rent, for cloathing, or for any other particular uſe. Theſe proportions find out and eſtabliſh themſelves; and that with ſuch exactneſs that if any one part exceeds its proportion, all the other parts feel it.

Before the invention of paper money (bank notes) there was no other money in the nation than gold and ſilver, and the greateſt quantity of money that ever was raiſed in taxes, during that period, never exceeded a fourth part of the quantity of money in the nation. It was high taxing when it came to this point. The taxes in the time of William the third, never reached to four millions before the invention of paper; and the quantity of money in the nation at that time was eſtimated to be about ſixteen millions. The ſame proportions eſtabliſhed themſelves in France. There was no paper-money in France before the preſent revolution, and the taxes were collected in gold and ſilver money. The higheſt quantity of taxes never exceeded twenty-two millions ſterling; and the quantity of gold and ſilver money in the nation, at the ſame time, as ſtated by Mr. Neckar from returns of coinage at the mints, in his treatiſe on the adminiſtration of the finances, was about ninety millions ſterling. To go beyond this limit, of a fourth part, in England, they were obliged to introduce paper-money; and the attempt

to go beyond it in France where paper could not be introduced, broke up the government. This proportion therefore of a fourth part is the limit which the nature of the thing eſtabliſhes for itſelf, be the quantity of money in a nation more or leſs.

The amount of taxes in England at this time is full twenty millions, and therefore the quantity of gold and ſilver and of bank notes taken together, amounts to eighty millions. The quantity of gold and ſilver as ſtated by Lord Hawkeſbury's ſecretary (George Chalmers) as I have before ſhewn, is twenty millions; and therefore the total amount of bank notes in circulation, all made payable on demand, is ſixty millions. This enormous ſum will aſtoniſh the moſt ſtupid ſtock-jobber, and overpower the credulity of the moſt thoughtleſs Engliſhman; but were it only a third part of that ſum the bank cannot pay half a crown in the pound.

There is ſomething curious in the movements of this modern complicated machine, the funding ſyſtem; and it is only now that it is beginning to unfold the full extent of its movements. In the firſt part of its movements it gives great powers into the hands of government, and in the laſt part it takes them completely away.

The funding ſyſtem ſet out with raiſing revenues under the name of loans, by means of which government became both prodigal and powerful. The loaners aſſumed the name of creditors, and though it was ſoon diſcovered that loaning was government-jobbing, thoſe pretended loaners, or the perſons who purchaſed into the funds afterwards, conceived themſelves not only to be creditors, but to be the *only* creditors.

But ſuch has been the operation of this complicated machine, the funding ſyſtem, that it has pro-

duced, unperceived, a ſecond generation of creditors, more numerous and far more formidable, and withal more real than the firſt generation; for every holder of a bank note is a creditor, and a real creditor, and the debt due to him is made payable on demand. The debt therefore which the government owes to individuals is compoſed of two parts; the one about four hundred millions bearing intereſt, the other about ſixty millions payable on demand. The one is called the funded debt, the other is the debt due in bank notes.

This ſecond debt (that contained in the bank notes) has, in a great meaſure, been incurred to pay the intereſt of the firſt debt; ſo that in fact little or no real intereſt has been paid by government. The whole has been deluſion and fraud. Government firſt contracted a debt in the form of loans with one claſs of people, and then run clandeſtinely into debt with another claſs, by means of bank notes, to pay the intereſt. Government acted of itſelf in contracting the firſt debt, and made a machine of the bank to contract the ſecond.

It is this ſecond debt that changes the ſeat of power and the order of things; for it puts it in the power of even a ſmall part of the holders of bank notes (had they no other motive than diſguſt at Pitt and Grenville's ſedition bills) to controul any meaſure of government they found to be injurious to their intereſt; and that not by popular meetings, or popular ſocieties, but by the ſimple and eaſy operation of with-holding their credit from that government; that is, by individually demanding payment at the bank for every bank note that comes into their hands. Why ſhould Pitt and Grenville expect that the very men whom they inſult and injure ſhould at the ſame time continue to ſupport the meaſures of

Pitt and Grenville by giving credit to their promiſſory notes of payment. No new emiſſions of bank notes could go on while payment was demanding on the old, and the caſh in the bank waſting daily away; nor any new advances be made to government or to the Emperor to carry on the war, nor any new emiſſion be made of exchequer bills.

"*The bank*, ſays Smith, (book 2. chap. 2) is *a great engine of ſtate.*" And in the ſame paragraph he ſays, "*The ſtability of the bank is equal to that of the Britiſh government;*" which is the ſame as to ſay that the ſtability of the government is equal to that of the bank, and no more. If then the bank cannot pay, the *arch-treaſurer of the holy Roman empire* (S. R. I. A.*) is a bankrupt. When Folly invented Titles, ſhe did not attend to their application; for ever ſince the government of England has been in the hands of *arch-treaſurers*, it has been running into bankruptcy; and as to the arch-treaſurer *apparent*, he has been a bankrupt long ago. What a miſerable proſpect has England before its eyes!

Before the war of 1755 there were no bank notes lower than twenty pounds. During that war bank notes of fifteen pounds and of ten pounds were coined; and now, ſince the commencement of the preſent war they are coined as low as five pounds. Theſe five pound notes will circulate chiefly among little ſhop keepers, butchers, bakers, market people, renters of ſmall houſes, lodgers, &c. All the high departments of commerce, and the affluent ſtations of life were already *overſtocked*, as Smith expreſſes it, with bank notes. No place remained open wherein to crowd an additional quantity of bank notes but among the claſs of people I have juſt mentioned, and the means of doing this could be beſt effected by

* Part of the inſcription on an Engliſh guinea.

coining five pound notes. This conduct has the appearance of that of an unprincipled insolvent, who, when on the verge of bankruptcy to the amount of many thousands, will borrow as low as five pounds of the servants in his house, and break the next day.

But whatever momentary relief or aid the minister and his bank might expect from this low contrivance of five pound notes, it will encrease the inability of the bank to pay the higher notes, and hasten the destruction of all; for even the small taxes that used to be paid in money will now be paid in those notes, and the bank will soon find itself with scarcely any other money than what the hair powder guinea tax brings in.

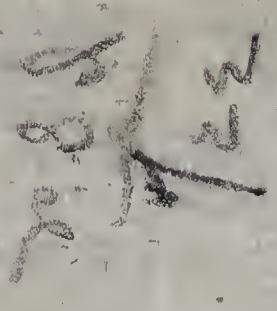
The bank notes make the most serious part of the business of finance; what is called the national funded debt is but a trifle when put in comparison with it; yet the case of the bank notes has never been touched upon. But it certainly ought to be known upon what authority, whether that of the minister or of the directors, and upon what foundation, such immense quantities are issued. I have stated the amount of them at sixty millions sterling; I have produced data for that estimation; and besides this, the apparent quantity of them, far beyond that of gold and silver in the nation, corroborates therewith. But were there but a third part of sixty millions, the bank cannot pay half a crown in the pound; for no new supply of money, as before said, can arrive at the bank, as all the taxes will be paid in paper.

When the funding system began, it was not doubted that the loans that had been borrowed would be repaid. Government not only propagated that belief, but it began paying them off. In time this profession came to be abandoned; and it is not

difficult to ſee that bank notes will march the ſame way; for the amount of them is only another debt under another name; and the probability is, that Mr. Pitt will at laſt propoſe funding them. In that caſe bank notes will not be ſo valuable as French aſſignats. The aſſignats have a ſolid property in reſerve in the national domains; bank notes have none; and beſides this, the Engliſh revenue muſt then ſink down to what the amount of it was before the funding ſyſtem began, between three and four millions: One of which the *arch-treaſurer* would require for himſelf, and the arch-treaſurer *apparent* would require three quarters of a million more to pay his debts. "*In France*, ſays Sterne, *they order theſe things better.*"

I have now expoſed the Engliſh ſyſtem of finance to the eyes of all nations; for this work will be publiſhed in all languages. In doing this, I have done an act of juſtice to thoſe numerous citizens of neutral nations who have been impoſed upon by that fraudulent ſyſtem, and who have property at ſtake upon the event.

As an individual citizen of America, and as far as an individual can go, I have revenged (if I may uſe the expreſſion without any immoral meaning) the piratical depredations committed on the American commerce by the Engliſh government.—I have retaliated for France on the ſubject of finance; and I conclude with retorting on Mr. Pitt the expreſſion he uſed againſt France, and ſay, that the Engliſh ſyſtem of finance "IS ON THE VERGE, NAY EVEN IN THE GULPH OF BANKRUPTCY."

THOMAS PAINE.

Paris, 19th Germinal,
4th year of the Republic,
April 8, 1796.